



CONNECTICUT

**TESTIMONY OF
NATIONAL FEDERATION OF INDEPENDENT BUSINESS (NFIB)
BY
ANDY MARKOWSKI, CONNECTICUT STATE DIRECTOR
CONCERNING
SB-1007, AN ACT CONCERNING THE GOVERNOR'S RECOMMENDATIONS ON REVENUE
BEFORE THE
FINANCE, REVENUE & BONDING COMMITTEE
MARCH 7, 2011**

A non-profit, non-partisan organization founded in 1943, NFIB is Connecticut's and the nation's leading small-business association. In Connecticut, NFIB represents thousands of members and their employees and membership is scattered across the state and ranges from sophisticated high technology enterprises to single-person "Mom & Pop" shops that operate in traditional ways. NFIB's mission is "To promote and protect the right of its members to own, operate, and grow their businesses." On behalf of those small- and independent- job-providers in Connecticut, I offer the following comments:

NFIB/Connecticut *opposes* many of the tax increases contained in this bill. Passage of the various tax proposals contained in this legislation would not only harm existing small and mid-sized business in Connecticut, but also discourage entrepreneurship and relocation of new businesses to the state. Furthermore, as recently outlined in the accompanying "Open Letter" from the NFIB/Connecticut Leadership Council to the Governor and members of the legislature, what is most troubling about SB-1007 is that *"It makes no provision to sunset the tax increases even when the fiscal emergency passes."*

Introduction

Connecticut is already a high-cost state for employers with energy costs, development costs, unemployment insurance costs, regulatory compliance costs, health insurance premiums, and employee salary and benefit costs at or near the highest in the nation. These costs as well as even the possibility of the several tax increases outlined in this bill are reflected in our state's slow job growth over the past several years, particularly in the small business sector which has traditionally been the state's job incubator. Small business owners are not a bottomless pit. Now is not the time to impose additional tax increases that will hit small business owners especially hard, and further make the state less economically competitive.

Small business feels that lawmakers focus only on the problems they and their immediate colleagues create for small business owners. While Congress only looks at the federal tax structure; the state legislature looks only at Connecticut taxes; and municipal bodies only consider the local taxes that they impose. No one, except the small business owner who must pay all the taxes, looks at the accumulation of levies. Owners see the tax problem as a whole and do not distinguish among the problem's sources.

The problem that seemingly no policymaker until recently has seemingly wanted to address is the long-term fiscal problems of state government. While huge state deficits are not directly a small business problem, the taxes required to fund government are, as are the programs those taxes pay for. Small business therefore has a huge stake state in fiscal policy. But to return current troubling fiscal trends to a rational course of reduced spending will require difficult political decisions that lawmakers seem abhorrent to discuss, let alone make.

Income Tax Increases

Increasing the income tax and creating additional brackets and accompanying rates may seem like a quick and viable solution to capture much needed additional revenue, however it will do absolutely nothing to stimulate the economy and provide immediate relief to small business owners—something desperately needed especially during the current difficult economic times. Providing economic relief and certainty to Connecticut's job creators should be the number one goal of the legislature this session. Tax policy should be used to help stimulate, not stymie, job growth and the state's economy.

Unfortunately, when it comes to proposals to raise the income tax rates, there are two aspects of the issue that are far too often overlooked: First, the increasing application of the individual income tax, as opposed to corporate taxes, as a "business" tax and the resulting impact on the state economy; and, secondly, the stark contrast between the state's substantial financial assistance to certain targeted economic sectors and large businesses and the attention paid to the widely dispersed, but long-standing domestic small business sector that provides jobs for a majority of the state's workers.

For example, as the Connecticut General Assembly rewarded the profitable film industry with millions of dollars of tax credits and benefits, the income tax rate remained unchanged and in fact even increased for some small and independent businesses. Many struggling small businesses have been and still are, in effect, subsidizing large profitable companies.

The state income tax rate has become an increasingly significant part of small business' cost of doing business in Connecticut. More and more (upwards of 75%) small and independent businesses are paying their taxes just like individuals due to the growth in sole proprietorships, partnerships and Subchapter S corporations. As more small and independent businesses pay individual income taxes, fewer state revenue dollars are derived from the corporate taxes. The Connecticut personal income tax rate thus has far a greater impact on job growth and other macro-economic factors, particularly in the critical small business sector. Reduction in the rate will spur new job growth among the state's job creators, while *an increase in the rate will only further stagnate our state's economy.*

Sales Tax Increases

Any increase in the sales tax will adversely affect many small retailers and other small businesses in the state, making Connecticut less competitive than other states, particularly those surrounding states with a sales tax rate less than the proposed 6.35%. Passage of these bills would only serve to generate yet another revenue stream funded on the backs of Connecticut's small businesses and their customers but would do nothing to curb the insatiable spending appetites of both the state and our cities and towns. Rather than allowing municipalities, or even worse, un-elected, unaccountable regional authorities, the ability to impose additional sales taxes, eliminating wasteful spending and improving fiscal transparency

and accountability at both the state and local levels, as well as eliminating costly unfunded state mandates on municipalities, should be the priorities of the legislature.

Estate Tax Increases

SB-1007 proposes to reduce the current threshold for taxable estates in Connecticut from \$3.5 million down to \$2.0 million. This change could have a devastating impact on many of Connecticut's closely-held family businesses and farms. As it is, the estate tax provides no incentive for small and family-owned businesses to expand their business or create new jobs. In fact, it taxes the family right out of business. Much of the cost of the estate tax occurs before the tax itself is levied. This tax applies to property transferred at death if the value of the property exceeds the estate tax exclusion. While the owner of the estate is responsible for the tax, their heirs often are responsible for the actual payment of the tax upon the death of the owner. The value of the estate to which the tax is applied includes all property the owner has an interest in at the time of death, including life insurance, annuities, and business assets. The threat of this tax actually forces small business owners to pay for expensive estate planning if they want to keep their business in their family. Protecting small business from the estate tax is important in order to keep Main Street family businesses in business for future generations. Reducing the threshold for taxable estates does exactly the opposite.

Gas Tax Increases

In the 2008 edition of "*Small Business Problems & Priorities*" by the NFIB Research Foundation, "Energy Costs, Except Electricity" ranked as the second most-pressing problem for small business owners, two positions higher than in 2004. 43% evaluate the problem as critical, compared to only one-quarter of owners in 2004. According to NFIB's *Energy Consumption* poll, energy costs are one of the top three business expenses in 35% of small businesses. Owners use energy for a variety of purposes essential to the business, but the primary energy cost for 38% of small firms is operation vehicles.

Within the Transportation/Warehousing sector of small business, fuel costs are the number one problem, ranked as critical by 68% of those in the sector. This problem has risen in rank in each of the past three surveys from 4th in 2000, 2nd in 2004 to 1st in 2008 due to the sharp rises in fuel costs. It should also be mentioned that "Traffic, Congestion, Parking and Highways" is a relatively low-ranking problem for all industry sectors with the exception of Transportation/Warehousing. The problem ranks 9th for the industry sector compared to 58th among the general small business population.

Increasing the gas tax by even two or three cents would hurt many Connecticut consumers and small businesses at any time, but such an increase would hit particularly hard during this current challenging economic climate. Unlike their larger counterparts, it is much more difficult for small businesses to absorb increased prices. For small-business owners, more expensive gasoline translates into less investment in their businesses, fewer employees and higher costs.

Small business in Connecticut will not support motor fuel tax increases without addressing much needed transportation infrastructure improvements, labor reforms and other money-wasting practices. Connecticut taxpayers deserve more efficient use of road-tax dollars before the legislature asks for more. Specifically, as a result of Connecticut's prevailing-wage law and its inflationary effect on construction costs, taxpayers are forced to overpay to build roads, bridges,

railroads and other infrastructure; and all-the-while many small businesses and their workers are excluded from the opportunity to participate in such projects.

Conclusion

NFIB members are not warning against higher taxes because they are self-interested. They know that the consequences of this budget proposal and the taxes contained in SB-1007 will lead to slower job growth and fewer opportunities for Connecticut residents. In order to survive, remain competitive and in business in the highly taxed, highly regulated, harsh economic climate of Connecticut, small businesses have had to have their fiscal house in order; it is certainly about time that state government does the same. Doing so will certainly not be easy. There is no doubt that whatever you produce will impose widespread and painful sacrifices. NFIB and our members would like you to recognize, however, that your decision this year will make the difference between temporary sacrifice and long-term decline.

Thank you for the opportunity to comment.



An Open Letter to Governor Malloy and the Legislature

To: *Hon. Governor Dannel P. Malloy*
Hon. Lieutenant Governor Nancy Wyman
Hon. Senate President Pro Tempore Donald E. Williams, Jr.
Hon. Speaker of the House Christopher G. Donovan
Hon. Senate Minority Leader John McKinney
Hon. House Minority Leader Lawrence F. Cafero, Jr.
Hon. Members of the 2011 Connecticut General Assembly

Dear honorable ladies and gentlemen:

As members of the state Leadership Council of the National Federation of Business (NFIB), which represents the thousands of small businesses that form the backbone of Connecticut's economy, we would like to commend you and your members for taking seriously the urgent fiscal and economic problems that threaten our future. Despite our occasional differences, we admire your dedication to public service and the often thankless and difficult work that it requires.

On behalf of our members we would like you to know that our jobs are just as difficult. The first responsibility of citizenship is self-sufficiency. As small business men and women we struggle every day to keep our business alive because the jobs they provide support our families, our children, our employees, our customers and clients and our communities. We are directly invested in the future of Connecticut in ways that many others are not.

Unlike our friends in the corporate sector, our business relationships are as much personal as professional. We know the names of every one of our employees. We know their spouses and their children. We do business with our friends and neighbors, and when they suffer in life or at work, we suffer right along with them.

It is for these reasons that we would like to express our deep concerns over the budget introduced recently by Governor Malloy. We know that it represents his best effort, and for that we are grateful. But he made that effort without our help and we think that's regrettable because, with all due respect, we believe that we have the kind of practical experience and knowledge that is so often lacking in public policy.

The Governor's budget proposes to raise taxes by nearly \$3 billion in the next two years. It makes no provision to sunset the tax increases even when the fiscal emergency passes. It would impose the increases on wage earners, consumers, taxpayers and employers who already pay among the highest

taxes in the country. And it would do so at the very moment that our immediate neighbors in New England, New York and New Jersey are moving in the opposite direction.

You should consider that very carefully. Employers and consumers have options. Money is mobile. Technology disperses capital and makes physical location less important. Until recently the distance between Connecticut and North Carolina, Florida or Texas may not have been enough to discourage a full-fledged exodus, although there is abundant research to show that Connecticut has been losing taxpayers and businesses to other regions of the country. Now, however, the competition is no farther than a short car ride.

The budget on which you will begin work shortly doesn't merely falter against the competition. It pretends that there is no competition at all. This, we believe, is extremely dangerous.

Please know that we do not assume easy solutions to our problems. There is no doubt that whatever you produce will impose widespread and painful sacrifices. We would like you to recognize, however, that your decision this year will make the difference between temporary sacrifice and long-term decline.

Connecticut cannot survive as the regional leader in high taxes, aggressive regulations and unrealistic public employee benefits. We hope that you will recognize this crisis as an opportunity to rethink the relationship between the people of Connecticut and their government. Indeed, the government exists at our expense. Every dollar it takes away is a dollar not invested or spent in the shops and factories and restaurants and offices on which every government ultimately depends.

Please consider us not as political adversaries, but as partners in the work in which you are now engaged. We have as much to lose or gain in the outcome as anyone in Hartford, and we want to be part of the solution.

Respectfully,

**Rick Willard, Chair; GWS Health Services, LLC, Wethersfield
Mark Bernacki, Vice-Chair; Sir Speedy Printing, New Britain
Kevin Maloney, Northeast Express Transportation, Inc., Windsor Locks
Ted Hsu, Horizon Services Company, East Hartford
Joanne Milburn, RJM Systems, Inc., Southbury
Peter Barrett, Peter Barrett Fine Art, LLC, East Haddam
Dan Fisher, A&D Home Health Solutions, Inc., Newington
Peter Rossato, Sunbelt Business Advisors of Hartford, Avon
Denise Kelly, Equipment Maintenance, Inc., Meriden
Bud Fay, X-Media Group, LLC, New London
Dori DeCarlo, S1 Safety First, LLC, Shelton
Paul Formica, Flanders Fish Market & Restaurant, East Lyme
Fran Delaney, West State Mechanical, Inc., Torrington
Pat Caruso, Associated Refuse Haulers, Monroe
Katy Barrett, KB Marketing Associates, LLC, Rocky Hill
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